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BEFORE THE ARIZONA CORPORATION COM



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DOUG LITTLE
ACTING CHAIRMAN
BOB STUMP
COMMISSIONER
BOB BURNS
COMMISSIONER
TOM FORESE
COMMISSIONER
VACANT
COMMISSIONER

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IN THE MATTER OF THE APPLICATION OF
LIBERTY UTILITIES (BLACK MOUNTAIN
SEWER) CORP., AN ARIZONA
CORPORATION, FOR AUTHORITY TO
ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED \$3,400,000.

Docket No. SW-02361A-15-0206

IN THE MATTER OF THE APPLICATION OF
LIBERTY UTILITIES (BLACK MOUNTAIN
SEWER) CORP., AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANTS AND PROPERTY AND FOR
INCREASES IN ITS WASTEWATER RATES
AND CHARGES FOR UTILITY SERVICE
BASED THEREON.

Docket No. SW-02361A-15-0207

Arizona Corporation Commission

DOCKETED

JAN 27 2016

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RUCO'S NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Direct Testimony of David P. Tenney in support of the Settlement Agreement, in the above-
referenced matter.

RESPECTFULLY SUBMITTED this 27th day of January, 2016.

Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 27th day
3 of January, 2016 with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8 COPIES of the foregoing emailed
9 this 27th day of January, 2016 to:

10 Robin Mitchell
11 Wes Van Cleve
12 Legal Division
13 Arizona Corporation Commission
14 1200 West Washington
15 Phoenix, Arizona 85007
16 rmitchell@azcc.gov
17 wvancleve@azcc.gov

18 Jay L. Shapiro
19 Shapiro Law Firm, P.C.
20 1819 E. Morten Avenue, Suite 280
21 Phoenix, Arizona 85020
22 jay@shapslawaz.com
23 whitney@shapslawaz.com

24 Todd C. Wiley
Liberty Utilities
12725 W. Indian School Rd, Suite D-101
Avondale, Arizona 85392
Todd.wiley@libertyutilities.com

Copies of the foregoing mailed this 27th
day of January, 2016 to:

Michele Van Quathem
Ryley Carlock & Applewhite
One N. Central Avenue
Phoenix, Arizona 85004-4417

Scott Wakefield
Hinton & Curry, P.L.L.C
5045 N. 12th Street, Suite 110
Phoenix, Arizona 85014-9900

Michael Wright
Sherman & Howard, LLC
7033 E. Greenway Pkwy, Suite 250
Scottsdale, Arizona 85254

Gary Neiss
Town of Carefree
100 Easy Street
P.O. Box 740
Carefree, Arizona 85377

By Cheryl Fraulob
Cheryl Fraulob

LIBERTY UTILITIES CORP.
(BLACK MOUNTAIN SEWER)
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

DIRECT TESTIMONY
OF
DAVID P. TENNEY
IN
SUPPORT OF THE SETTLEMENT AGREEMENT

ON BEHALF OF THE
RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 27, 2016

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EXECUTIVE SUMMARY

The Arizona Residential Utility Consumer Office ("RUCO") presents the direct testimony of David Tenney, Director of RUCO, in support of the Proposed Settlement Agreement ("Settlement" or "Agreement") on Liberty Utilities (Black Mountain Sewer) Corp. ("Black Mountain") request for a permanent rate increase and sewer plant closure expenses. Mr. Tenney recommends that the Arizona Corporation Commission adopt the Proposed Settlement Agreement for the following reasons:

The Proposed Settlement Agreement reflects an outcome that is fair to both the ratepayer and Black Mountain and is in the public interest.

The Proposed Settlement Agreement is a comprehensive settlement agreement. Its terms settle a wide range of issues that were of interest to the parties.

RUCO supports the Proposed Settlement Agreement in its entirety because it contains numerous benefits to the consumer which will be discussed in Mr. Tenney's testimony.

The Proposed Settlement Agreement resolves a couple areas of importance to RUCO in the underlying rate case including: 1) properly converting advances in aid of construction ("AIAC") to contributions in aid of construction ("CIAC") to account for expired Line Extension Agreements along with related adjustments to the accumulated amortization, 2) requiring a meeting to discuss corporate allocation manual ("CAM") and corporate cost allocation methodologies, 3) Cost of Equity of 9.5%, and 4) all proposed surcharges and adjustor mechanisms were either eliminated or incorporated into Fair Value Rate Base. These issues were addressed satisfactorily in the Proposed Settlement Agreement and will be explained more fully in Mr. Tenney's testimony.

INTRODUCTION

Q. Please state your name, occupation and business address for the record.

A. My name David Tenney. I am Director for the Arizona Residential Utility Consumer Office ("RUCO"). My business address is 1110 W. Washington Street, Suite 220, Phoenix, Arizona 85007.

Q. Please state your background and qualifications for the record.

A. I joined RUCO in March of 2015. I served on the Navajo County Board of Supervisors, representing rural Arizona, from 2004 through 2015. I served as president of the County Supervisors Association of Arizona and was Chairman of the Navajo County Board of Supervisors. In addition, I have served on a number of local, state and national committees, including the Natural Resources Working Group, the Navajo County Regional Development Council, the Silver Creek Watershed Alliance Board, the County Supervisors' Association Legislative Policy Committee, Eastern Arizona Counties Organization, Environmental Economic Communities Organization and the Four Forest Restoration Initiative Steering Committee.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain RUCO's support of the Black Mountain Proposed Settlement Agreement ("Agreement").

1 **Q. Have you participated in other settlement negotiations?**

2 A. Yes. I have participated in settlement negotiations in other matters that
3 have come before the Arizona Corporation Commission ("ACC" or
4 "Commission"). These negotiations have resulted in reaching an accord
5 with the utility and the other settling parties, leading to the signing and
6 support of a settlement agreement.

7

8 **THE SETTLEMENT PROCESS**

9 **Q. Was the negotiation process that resulted in the Settlement**
10 **Agreement a proper and fair process?**

11 A. Yes. The Agreement is the result of numerous hours of negotiation and a
12 willingness among the parties to compromise. The negotiations were
13 conducted in a fair and reasonable way that allowed each party the
14 opportunity to participate. All parties had an opportunity to participate in
15 the negotiation. Furthermore, all parties were allowed to express their
16 positions fully.

17

18 **Q. Did all the parties sign the Agreement?**

19 A. Yes. All parties in this case have agreed to this Settlement.

20

21

22

1 **Q. Why is a negotiated settlement process an appropriate way to**
2 **resolve this matter?**

3 A. By its very nature, a settlement finds middle ground that the parties can
4 support. All parties that participated in the settlement talks were
5 sophisticated parties who participated fully in the ACC's regulatory
6 processes.

7
8 Settlement negotiations began only after each party had the opportunity
9 to analyze Black Mountain's Application, file its direct testimony, and read
10 the direct testimony of other Interveners. Of course, the Agreement in no
11 way eliminates the ACC's constitutional right and duty to review this
12 matter and to make its own determination whether the Agreement is truly
13 balanced and the rates are just and reasonable.

14
15 **SUMMARY OF TESTIMONY**

16 **Q. Please summarize your testimony.**

17 A. The Agreement reflects an outcome that is fair to both the consumer and
18 Black Mountain and is in the public interest. Furthermore, this is a
19 comprehensive agreement. Its terms settle a wide range of issues that
20 were of interest to the parties.

21
22 RUCO supports the Agreement in its entirety because it contains
23 numerous benefits to the consumer. Those benefits include; 1) properly

1 converting AIAC to CIAC to account for expired Line Extension
2 Agreements along with related adjustments to the accumulated
3 amortization, 2) requiring a future meeting to discuss corporate allocation
4 manual ("CAM") and corporate cost allocation methodologies, 3) Cost of
5 Equity of 9.5%, and 4) all proposed surcharges and adjustment
6 mechanisms were either eliminated or incorporated into Fair Value Rate
7 Base. These benefits are addressed satisfactorily in the Agreement and
8 will be explained later in my testimony
9

10 **SETTLEMENT PROVISIONS**

11 **Q. In summary, what are the benefits to the residential consumer?**

12 **A.** Among the more significant benefits to the residential consumer:

- 13 • Properly convert AIAC to CIAC – Company accounting in initial filing
14 did not properly convert AIAC to CIAC. However, as part of the
15 Settlement, Black Mountain has agreed to correct the oversight.
16 (Section 2.2.4)
- 17 • Setting up a meeting between Staff, RUCO and the Company to
18 discuss CAM and corporate cost allocation methodologies - The CAM
19 was established without the benefit of RUCO's participation. The
20 Company sought cost allocations consistent with the CAM in this case
21 which RUCO took issue. As part of the Settlement, RUCO agrees in
22 this case that the CAM and methodology used are acceptable.
23 However, moving forward Black Mountain, RUCO, and Staff agree to

1 meet to discuss possible changes to the CAM and methodology.

2 (Section 2.3.2.4)

- 3 • Cost of Equity of 9.5% - In its initial filing Black Mountain requested a
4 10.8% Cost of Equity. As per the Settlement, the parties agreed to a
5 9.5% Cost of Equity. (Section 2.4.3)

- 6 • Surcharges and Adjustment Mechanisms eliminated – Black Mountain
7 initially requested a number of different surcharges and adjustor
8 mechanisms in their filing. Through negotiations the Purchase Power
9 Adjuster Mechanism and Property Tax Adjuster Mechanism were
10 eliminated. The surcharge for plant closure costs already incurred has
11 been included in the Fair Value Rate Base. The additional proposed
12 surcharges for future plant closure costs were deferred until the next
13 rate case.

14
15 **PUBLIC INTEREST**

16 **Q. How is the public interest satisfied by the Agreement?**

17 **A.** At its core, the Agreement satisfies the public interest from RUCO's
18 perspective in that it provides favorable terms and protections for
19 residential consumers as defined above. The Agreement also satisfies the
20 public interest by providing a fair and balanced approach to addressing
21 the Company's concerns on required costs and revenue.
22
23

- 1 **Q. Does this conclude your testimony on the Agreement?**
- 2 **A. Yes it does.**